

Message Text

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15

ACTION TRSE-00

INFO OCT-01 AF-06 EUR-12 EA-06 NEA-09 ISO-00 FEA-01 AEC-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07

FPC-01 H-01 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01

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----- 087156

P R 180930Z JAN 75

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC PRIORITY 2464

INFO AMEMBASSY ALGIERS

AMEMBASSY AMMAN

AMEMBASSY BEIRUT

AMEMBASSY CAIRO

AMEMBASSY COLOMBO

AMEMBASSY DAMASCUS

AMEMBASSY ISLAMBAD

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KABUL

AMEMBASSY KHARTOUM

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY RABAT

AMEMBASSY SANAA

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY TUNIS

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SUBJ: TRIPARTITE INVESTMENT IN LDC'S

REF: (A) ABU DHABI A-72, 12/31/74 (B) STATE 281356

SUMMARY: ALTHOUGH POSSIBLE SOURCES OF FUNDS FOR TRIPARTITE INVESTMENT LIMITED IN ABU DHABI, PRIVATE AND GOVERNMENTAL SECTORS WELCOMED U.S. INITIATIVE. EMBASSY BELIEVES OPERATIONS OF ABU DHABI FUND FOR ARAB ECONOMIC DEVELOPMENT (ADFAED) OFFER CONSIDERABLE SCOPE FOR PARTICIPATION IN INVESTMENT MECHANISM.

1. PRIVATE SOURCES OF INVESTMENT FUNDS CONTROLLED BY BANKS AND RELATIVELY SMALL GROUPS OF UAE MERCHANTS. OVERWHELMING BULK OF BANK DEPOSIT LIABILITIES ARE OF SHORT TERM NATURE AND LENDING OPERATIONS RESTRICTED TO LETTERS OF CREDIT AND 3-5 YEAR MORTGAGE FINANCING. BANKING COMMUNITY IS IN EXCELLENT POSITION, HOWEVER, TO PROVIDE INVESTMENT ADVISORY SERVICES TO LARGE DEPOSITORS, ALMOST ALL OF WHOM ARE MEMBERS OF ROYAL FAMILY. RECENT \$100 MILLION INVESTMENT BY SHAIKH ZAYID IN PAKISTAN AGRICULTURAL PROJECT (KARACHI A-126, 12/2/74) IS CASE IN POINT. BANK OF AMERICA ADVISED ZAYID ON PROJECT AND BROUGHT IN U.S. CONSULTANT ERRIS FARMS. PROJECT MAY PROVE TO BE SIGNIFICANT EXPORT OPPORTUNITY FOR U.S. FIRMS. OUTSIDE OF FEW MEMBERS OF ROYAL FAMILY, PRIVATE CAPITAL HOLDERS ARE INWARD LOOKING, SEEKING TO EXPLOIT INVESTMENT OPPORTUNITIES OF A BURGEONING ECONOMY.

2. GOVERNMENT SOURCES ARE: SURPLUS OIL REVENUES EARMARKED FOR (A) PROFIT-MAKING INVESTMENT, (B) GOVERNMENT'S BILATERAL FOREIGN ASSISTANCE, AND (C) ABU DHABI FUND FOR ARAB ECONOMIC DEVELOPMENT. CATEGORY (A) AMOUNTED TO ONE BILLION DOLLARS IN 1974, ALLMYF WHICH WAS DIRECTED TO PURCHASE OF REAL ESTATE AND SECURITIES IN WESTERN EUROPE AND U.S. THESE INVESTMENTS ARE CONTROLLED BY THE ABU DHABI INVESTMENT BOARD. ITS PHILOSOPHY IS CONSERVATIVE AND THE BOARD WILL CONTINUE TO CONCENTRATE ON PORTFOLIO INVESTMENT IN THE DEVELOPED COUNTRIES IN 1975.

3. GOVERNMENT COMMITMENTS FOR ASSISTANCE ABROAD (CATEGORY B) HAVE GROWN LIKE TOPSY OVER THE PAST YEAR AND NOW AMOUNT TO 1.7 BILLION DOLLARS. A GOOD PORTION OF THIS ASSISTANCE IS GRANTED ON A PROJECT BASIS (E.G. BANGLADESH, ZAIRE, YEMEN) AND FOR THIS REASON IS ADMINISTERED THROUGH ADFAED - EVEN THOUGH PAID FOR BY THE MINISTRY OF FINANCE). IN ADDITION, ADFAED HAS ITS OWN LIMITED OFFICIAL USE

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RESOURCES, WITH AUTHORIZED CAPITAL OF \$500 MILLION AND A PROFESSIONAL STAFF OF 25. HASSAN ABBAS ZAKI, ADFAED GENERAL MANAGER, MEMBER OF ADFAED BOARD OF DIRECTORS, AND ECONOMIC ADVISOR TO SHAIKH ZAYID, IS THUS IN A KEY DECISION-MAKING POSITION.

4. IN CONVERSATION WITH AMBASSADOR AND ECON OFFICER, ZAKI WAS ENTHUSIASTIC ABOUT TRIPARTITE INVESTMENT CONCEPT. HE SPOKE OF RECYCLING PROBLEM IN TERMS ONE RARELY HEARS IN ABU DHABI: THE

NECESSITY OF CHANNELING SURPLUS REVENUES INTO PRODUCTIVE, DIRECT INVESTMENT IN THOSE LDC'S HARD HIT BY OIL PRICE INCREASES.

5. ZAKI IS INVOLVED IN ABU DHABI ASSISTANCE PROGRAMS IN EGYPT AND COMMENTS WERE BASED ON THIS EXPERIENCE. MAIN OBSTACLE TO COMMERCIALLY PROFITABLE INVESTMENTS HE FOUND WAS LACK OF INFRASTRUCTURE. MANY LDC'S NEED A "BIG PUSH" INVESTMENT PROGRAM IN SOCIAL OVERHEAD DEVELOPMENT. ZAKI SAW THE POSSIBILITY OF ADFAED (USING GOVERNMENT FUNDS) FINANCING INDUSTRIAL PROJECTS THROUGH PURCHASE OF BOTH EQUITY SHARES AND CONVERTIBLE DEBENTURES OF CORPORATE VEHICLES ESTABLISHED IN RECIPIENT LDC. AT THE SAME TIME, ADFAED, UTILIZING ITS OWN RESOURCES, COULD LEND FUNDS (AT RATE 3 1/2 TO 5 1/2 PERCENT, 10-15 YEAR REPAYMENT) FOR NEEDED INFRASTRUCTURE LINKED TO INDUSTRIAL PROJECT.

6. ZAKI HAD NO COMMENT OT OFFER ON MECHANISM FOR CHANNELING INVESTMENT. EMBASSY BELIEVES ZAKI WOULD NOT LIKE TO SEE INCREASED STREAM OF BUSINESSMEN LOOKING TO ABU DHABI AS SOURCE OF FUNDS. WHILE NOT RULING OUT MAXIMUM PARTICIPATION OF PRIVATE SECTOR, WE SECOND SUGGESTION OF EMBASSY KUWAIT THAT USG PARTICIPATE IN MECHANISM THROUGH EXIM, AID, AND OTHER AGENCIES. WE FEEL BEST OPPORTUNITIES, AT LEAST TO BEGIN WITH, WOULD BE FOR US TO APPROACH ADFAED ON, FOR EXAMPLE, AID IDENTIFIED PROJECTS IN EGYPT AND SYRIA, OR EXIM IDENTIFIED PROJECTS ELSEWHERE IN LDC'S. PROCEDURE WOULD DEFINITELY LIGHTEN LOAD OF PROJECT EVALUATION BY ADFAED'S OVER-BURDENED STAFF WHILE USG IDENTIFICATION WITH PROJECT WOULD SERVE OUR PURPOSES OF BUILDING SHARED INTERESTS IN U.S.-UAE BILATERAL RELATIONS.
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